



**Treasurer of the
State of North Carolina**

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**Comptroller of the
State of New York**



**Treasurer of the
State of California**

SPITZER, MOORE, McCALL AND ANGELIDES ANNOUNCE LANDMARK INITIATIVE TO ELIMINATE WALL STREET CONFLICTS OF INTEREST

Effort protects both individual investors and billions of dollars in state investments

New York State Comptroller H. Carl McCall, North Carolina Treasurer Richard Moore, New York State Attorney General Eliot Spitzer and California State Treasurer Philip Angelides today announced the launching of a major initiative to protect state taxpayer funds and public pension funds from the risks of conflicts of interest.

Under this initiative, investment banking firms that do business with New York, North Carolina and California will be asked to adopt the conflict of interest principles set forth in the agreement that Attorney General Spitzer reached with Merrill Lynch on May 21, 2002. In addition the North Carolina Public Employees Retirement Systems and the New York State Common Retirement Fund and will impose the following requirements on investment banking and money management firms that do business with the pension funds:

- money management firms must make disclosures regarding: (a) portfolio manager and analyst compensation; (b) the firms' use of broker dealers that have adopted the Merrill Lynch principles; and (c) potential conflicts of interest arising from client and corporate parent relationships;
- money management firms must adopt safeguards to ensure that potential conflicts of interest do not influence investment decisions made on behalf of the pension funds; and
- money management firms must scrutinize more closely the auditing and corporate governance practices of companies in which pension fund moneys are invested.

"The corporate abuses we have seen recently have taken a terrible toll on the integrity of our financial system and have created a crisis of confidence among investors in Wall Street," said New York State Comptroller McCall. "Corporate executives must be held responsible for their actions. And those in Washington charged with overseeing our financial markets – Congress and the SEC –

must be held responsible for a broken system. I represent nearly one million New York public employees and retirees, and the mounting evidence of high level corporate abuse has a real impact on them, their families and all investors across this nation. I am proud to be with Treasurers Angelides and Moore and of course Attorney General Spitzer as we act to protect investors and hold corporations accountable. My colleagues and I will not rest until we have succeeded in making corporate accountability a reality and we have restored investor confidence.”

“Many recent incidents on Wall Street demonstrate the potential adverse consequences of conflicts of interest and insufficient corporate governance controls,” said North Carolina State Treasurer Richard Moore. “As a result, I am going to make sure that the investment banking and money management firms that do business with North Carolina disclose all potential conflicts of interest and take whatever steps are necessary to ensure that our investments are protected.”

“It is absolutely essential that we restore the confidence of the investing public in Wall Street,” said Attorney General Spitzer. “The initiative being announced today takes a giant step toward that goal, by extending the Merrill Lynch principles to investment banking firms throughout the country, and by improving the oversight of money management firms and companies whose stock is purchased by the public pension funds. I applaud Comptroller McCall, Treasurer Moore and Treasurer Angelides for their dramatic leadership on this issue, and it is my expectation that these reforms will become the industry standard.”

“Our message today is simple and clear: if you wish to do business with our State, we expect you to adhere to the highest standards of integrity and disclosure,” said California Treasurer Philip Angelides. “We are committed to rooting out the abuses which have rocked the financial markets and which have left families, pensioners and taxpayers to pick up the pieces.”

Many money management firms that handle investments for public pension funds also handle investments for corporate 401(k) plans. This creates a potential conflict of interest, because the money managers may feel pressured to add the stocks of their corporate 401(k) clients into the pension fund portfolios, even if it is not in the best interest of the pension funds. Similarly, money manager research analysts may be reluctant to provide objective research advice, knowing that adverse recommendations may cause their firms to lose corporate clients. Other potential conflicts of interest exist with respect to those money management firms that are subsidiaries of investment banking firms.

The reforms proposed today address these issues by requiring that money management firms disclose their client relationships, disclose how their portfolio managers and research analysts are compensated, and adopt safeguards to ensure that these and other corporate relationships do not influence investment decisions.

Last week’s announcement that WorldCom had concealed almost \$4 billion in expenses was simply the latest in a long series of corporate financial wrongdoing. Public pension funds have incurred substantial losses due to the plummeting stock prices of major corporations like

WorldCom, Enron and Global Crossing, and the lack of sufficient objective internal and external controls clearly has played a role in these losses.

In order to address this problem, when the money management firms retained by North Carolina and New York decide which stocks to invest in, they will be required to consider the quality and integrity of the corporation's accounting and governance practices, including whether significant consulting relationships may taint the independence of the company's outside auditors.

Moore, McCall, Spitzer and Angelides emphasized the great benefits that this initiative will provide to the general investing public. North Carolina, New York and California contract with dozens of investment banking firms, and promoting adherence to the Merrill Lynch principles will benefit all investors, not just the states. In addition, public confidence in the stock market has a great impact on the future growth of state investments. Adoption of the Merrill Lynch principles will help restore confidence in the marketplace, which will have a direct beneficial impact on both pension fund beneficiaries and individual investors.

"Today is a great day for individual investors," Spitzer said. "By using their market power to change the way that Wall Street does business, Treasurer Moore, Comptroller McCall and Treasurer Angelides will be helping to protect the investments of every person in America who owns even a single share of stock."

Spitzer, Moore, McCall and Angelides emphasized that they will be urging other public and private pension funds to adopt the reforms announced today.

Comptroller H. Carl McCall is the sole trustee of the New York State Common Retirement Fund, which is the second largest state public pension fund in the country with approximately \$112 billion in investments.

Treasurer Richard Moore is the sole trustee of the North Carolina Public Employees Retirement System, which is the 10th largest state public pension fund with approximately \$60 billion in investments.

California Treasurer Philip Angelides manages California's Pooled Money Investment Account, which has more than \$50 billion in taxpayer funds, and selects investment banks to handle the California state bond and debt issuance – which will exceed \$25 billion this year alone. Treasurer Angelides also sits on the governing boards of the California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS), and will recommend that those bodies also adopt these principles.

Attached is a copy of the State and Public Pension Fund Investment Protection Principles adopted today.

STATE AND PUBLIC PENSION FUND INVESTMENT PROTECTION PRINCIPLES

A. Effective July 1, 2002, every financial organization that provides investment banking services and is retained or utilized by the State Treasurer of North Carolina, the Comptroller of the State of New York, or the State Treasurer of California (hereinafter “the State Investment Officers”), including but not limited to organizations retained by the North Carolina Public Employees Retirement Systems and the New York State Common Retirement Fund (hereinafter “the Pension Funds”), should adopt the terms of the agreement between Merrill Lynch & Co., Inc. and New York State Attorney General Eliot Spitzer dated May 21, 2002 (hereinafter “the Investment Protection Principles”). In retaining and evaluating any such financial organization, the State Investment Officers will give significant consideration to whether such organization has adopted the Investment Protection Principles.

The Investment Protection Principles are as follows:

- sever the link between compensation for analysts and investment banking;
- prohibit investment banking input into analyst compensation;
- create a review committee to approve all research recommendations;
- require that upon discontinuation of research coverage of a company, firms will disclose the coverage termination and the rationale for such termination; and
- disclose in research reports whether the firm has received or is entitled to receive any compensation from a covered company over the past 12 months.
- establish a monitoring process to ensure compliance with the principles;

B. Effective July 1, 2002, every money management firm retained by a State Investment Officer, as a condition of future retention, must abide by the following:

1. Money management firms must disclose periodically any client relationship, including management of corporate 401(k) plans, where the money management firm could invest State or Pension Fund moneys in the securities of the client.

2. Money management firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients.
3. Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the Investment Protection Principles.
4. Money management firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions of the money management firm. Each money management firm shall provide the State Investment Officers with a copy of the safeguards plan and shall certify annually to the State Investment Officers that such plan is being fully enforced.
5. In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including the its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company.
6. In deciding whether to invest State or Pension Fund moneys in a company, money management firms must consider the corporate governance policies and practices of the subject company.
7. The principles set forth in paragraphs 5 and 6 are designed to assure that in making investment decisions, the money management firms give specific consideration to the subject information and are not intended to preclude or require investment in any particular company.